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MERCANTILE STORES COMPANY, INC.

ANNUAL REPORT

JANUARY 31st, 1943

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THE ANTHE STORE COMPANY, INC.

ANNUAL REPORT

JANUARY 10 1900

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH

LINDSAY BRADFORD

ASHTON HAWKINS

HAROLD W. JOCKERS

F. G. KINGSLEY

FREDERICK H. MESERVE

GERRISH H. MILLIKEN

ROGER MILLIKEN

OFFICERS

F. G. KINGSLEY, *Chairman of the Board*

HAROLD W. JOCKERS, *President*

A. D. CHURBUCK, *Vice-President*

W. A. JONAS, *Vice-President*

FREDERICK H. MESERVE, *Vice-President*

MORGAN A. CASEY, *Treasurer*

ASHTON HAWKINS, *Secretary*

Stores Owned by
MERCANTILE STORES COMPANY, INC.

J. BACON & SONS
LOUISVILLE, KY.

THE CASTNER-KNOTT DRY GOODS CO.
NASHVILLE, TENN.

THE FAIR STORE COMPANY
CINCINNATI, OHIO

HENNESSY COMPANY
BUTTE, MONT.

THE JONES STORE CO.
KANSAS CITY, MO.

THE JOSLIN DRY GOODS COMPANY
DENVER, COLO.

THE LAZARUS STORE, INC.
WILKES-BARRE, PA.

THE LION DRY GOODS COMPANY
TOLEDO, OHIO

THE MacDOUGALL & SOUTHWICK CO.
SEATTLE, WASH.

THE McALPIN CO.
CINCINNATI, OHIO

MONTGOMERY FAIR
MONTGOMERY, ALA.

THE PEOPLES STORE COMPANY
TACOMA, WASH.

ROOT DRY GOODS COMPANY
TERRE HAUTE, IND.

THOMAS C. WATKINS, LTD.
HAMILTON, ONT., CANADA

J. B. WHITE & CO.
AUGUSTA, GA.

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware,
April 7, 1943.

To the Stockholders of

Mercantile Stores Company, Inc.:

The consolidated balance sheet of your Company and its subsidiaries at January 31, 1943, and the consolidated profit and loss and surplus accounts for the year ended that date are submitted herewith.

The net profit after all taxes for the current year was \$1,221,619.43 or \$8.22 per share, compared with \$1,100,776.66, or \$7.30 per share, for the preceding year. The net profit for the current year, before provision for taxes based on income amounted to \$3,340,264.60, an all time record, compared with \$1,912,941.50, for the preceding year. Provisions for Federal, State, and Canadian income and excess profits taxes amounted to \$2,118,645.17 compared with \$812,164.84.

Dividends of \$7.00 per share on the preferred stock and \$2.50 per share on the common, an aggregate of \$398,388.25, were paid during the year. Earned surplus was increased from \$844,871.37 to \$1,668,102.55, an increase of \$823,231.18.

Net sales, including sales of leased departments, amounted to \$41,173,112.82, an increase of 18.08% over the \$34,867,853.20 reported for the preceding year.

The ratio of current assets to current liabilities on January 31, 1943 was 3.4 to 1. compared with 3.6 to 1. last year.

Inventories as of January 31, 1943 were \$6,623,978.34 compared with \$4,340,148.51 for the previous year. This rise in inventory resulted in a decrease in the annual rate of inventory turnover from 5.71 to 5.30. Our outstanding commitments for merchandise are considerably higher than last year. Because of current market conditions we feel that this is justified. The management feels that this inventory is well assorted and not excessive as evidenced by the demands of our customers.

The management believes the accounts receivable are in a satisfactory condition. Reserves for doubtful accounts have been maintained at practically the same level despite substantial reductions in customers' accounts. Our cash sales have increased considerably. Our term loan was reduced from \$2,000,000 to \$1,600,000.

Tax Anticipation Notes amounting to \$1,353,000 were purchased.

The Company made capital expenditures of \$456,874.59 for new fixtures and other equipment during the last year. This was \$26,633.62 in excess of the depreciation. The management intends to continue its policy of modernization.

The President and certain Merchandise Division Heads were granted options, expiring September 14, 1943, to purchase 2,245 shares of common stock at \$19.95 a share, which is the price at which the Company acquired the stock. Prior to the end of the year 325 shares of this option have been exercised leaving a balance of 1,920 shares. These shares are being held in the Treasury against such options, together with 1,700 shares subject to options previously granted.

The management desires to express its sincere appreciation of the loyalty and cooperation of the Company's employees.

BY ORDER OF THE BOARD OF DIRECTORS

F. G. KINGSLEY,
Chairman of the Board

MERCANTILE STORE

(a Delaware corporation)

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS:

Cash in banks and on hand.....		\$2,551,575.06
Customers' accounts receivable—		
Regular retail terms	\$1,803,092.56	
Installment terms, including installments maturing after one year	1,358,250.87	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to \$228,933.98 at January 31, 1943).....	197,238.72	
	<u>\$3,358,582.15</u>	
Less—Reserves for doubtful accounts (including reserves applicable to accounts sold).....	722,922.01	2,635,660.14
Due from suppliers, etc.....		145,465.65
Merchandise inventories, priced on the basis of cost or market, whichever is lower, as determined by the retail inventory method.....		6,623,978.34
		<u>\$11,956,679.19</u>
TOTAL CURRENT ASSETS.....		

OTHER ASSETS:

Post-war refund of excess profits taxes.....	\$ 141,000.00	
United States Government securities deposited in escrow as guarantee of performance under a lease—at cost (quoted market value, \$104,844)	103,968.74	
Miscellaneous securities	31,757.35	276,726.09
	<u></u>	

FIXED ASSETS:

Land and buildings owned, buildings on leased ground and leaseholds (property of a net book value of \$245,956.49 is pledged to secure performance under a lease)—at cost, less reserve for depreciation of \$2,492,964.24	\$4,306,652.87	
Store fixtures—at cost, less reserve for depreciation of \$1,534,286.98....	1,576,109.31	
Delivery equipment—at appraised values as determined by the management	41,951.00	
	<u>\$5,924,713.18</u>	
Land and buildings not used in store operations—at cost, less reserve for depreciation of \$49,205.05.....	200,837.81	6,125,550.99

UNEXPIRED INSURANCE PREMIUMS, PREPAID RENT, ETC.....		408,734.14
		<u>\$18,767,690.41</u>

NOTES:

- (1) Surplus of \$737,208.68 is restricted by reason of purchase of treasury stock.
- (2) The companies are contingently liable on customers' notes discounted in the in the opinion of counsel for the Company, are covered by insurance.

ES COMPANY, INC.

(corporation)

Y COMPANIES

SHEET—JANUARY 31, 1943

LIABILITIES

CURRENT LIABILITIES:

Current maturities of notes payable to bank.....	\$	400,000.00	
Accounts payable		1,276,703.77	
Accrued taxes (other than Federal income), salaries, rent and interest.....		1,027,728.34	
Preferred stock dividend payable February 15, 1943.....		9,044.00	
Reserve for Federal income taxes, subject to review by U.S. Treasury Department	\$	2,115,000.00	
Less—United States Treasury Tax Savings Notes and accrued interest thereon		1,354,164.00	760,836.00
Reserve for conversion of net current assets of Canadian subsidiary.....			39,900.00

TOTAL CURRENT LIABILITIES \$ 3,514,212.11

NOTES PAYABLE TO BANK, due \$200,000 semiannually beginning June 30, 1943, guaranteed by Mersco Finance Corporation, a subsidiary company consolidated	\$	1,600,000.00	
Less—Current maturities included in current liabilities.....		400,000.00	1,200,000.00

RESERVES:

For Federal income tax which may be payable in future years on gross profit deferred for Federal income tax purposes.....	\$	124,000.00	
For redemption of trading stamps issued prior to 1937.....		53,801.81	177,801.81

DEFERRED CARRYING CHARGES ON INSTALLMENT ACCOUNTS..... 69,588.89

CAPITAL STOCK AND SURPLUS:

Capital stock—			
Preferred stock—7% cumulative, \$100 par value—callable at \$105—			
Authorized and issued, 10,410 shares (5,168 shares outstanding and 5,242 shares held in treasury).....	\$	1,041,000.00	
Common stock—no par value (stated value, \$36.66 2/3 per share)—			
Authorized and issued, 158,238 shares (144,152 shares outstanding and 14,086 shares held in treasury).....		5,802,060.00	
Surplus prior to February 1, 1935, per attached statement.....		6,257,633.78	
Earned surplus since February 1, 1935, per attached statement.....		1,668,102.55	
		\$14,768,796.33	

Deduct—Treasury stock (3,764 shares of preferred and 10,116 shares of common stock, at par or stated value, and 1,478 shares of preferred and 3,970 shares of common stock, at cost. Certain store managers, a vice-president and the treasurer were granted options expiring on April 15, 1943 to purchase an aggregate of 1,700 shares of common stock at \$17.64 per share, and the president and certain merchandise division heads were granted options expiring on September 14, 1943 to purchase an aggregate of 1,920 shares of common stock at \$19.95 per share. Such option prices represent cost of the stock to the Company)—

Preferred stock, 5,242 shares	\$515,711.89		
Common stock, 14,086 shares	446,996.84	962,708.73	13,806,087.60
			<u>\$18,767,690.41</u>

until such stock is sold or canceled.
amount of \$4,139.60 and on certain suits on account of injuries, damages, etc., which

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS AND SURPLUS ACCOUNTS

For the Year Ended January 31, 1943

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Net sales, including sales of leased departments.....		\$41,173,112.82
Cost of goods sold, selling, operating and administrative expenses, including depreciation of \$430,240.97		38,106,334.30
Net operating profit.....		\$ 3,066,778.52
Other income (net):		
Carrying charges on installment accounts, miscellaneous income, etc. (net).....		323,735.56
		\$ 3,390,514.08
Deduct—Interest expense		50,249.48
Net profit before taxes based on income.....		\$ 3,340,264.60
Provisions for taxes based on income:		
Federal income tax.....	\$ 841,036.75	
Federal excess profits tax (less post-war refund of \$125,000.00).....	1,125,000.00	
State and Canadian taxes (less post-war refund of \$16,000.00).....	152,608.42	2,118,645.17
Net profit carried to earned surplus		\$ 1,221,619.43

SURPLUS PRIOR TO FEBRUARY 1, 1935

Balance, January 31, 1942.....	\$ 6,257,633.78
(No change occurred in this account during the year ended January 31, 1943)	

EARNED SURPLUS SINCE FEBRUARY 1, 1935

Balance, January 31, 1942.....	\$ 844,871.37
Net profit for the year ended January 31, 1943.....	1,221,619.43
	\$2,066,490.80
Dividends declared:	
Preferred stock—\$7.00 per share.....	\$ 37,133.25
Common stock—\$2.50 per share.....	361,255.00
	398,388.25
Balance, January 31, 1943.....	\$ 1,668,102.55

ARTHUR ANDERSEN & CO.

ACCOUNTANTS AND AUDITORS

67 WALL STREET
NEW YORK

TO THE BOARD OF DIRECTORS,
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as at January 31, 1943, and the statements of consolidated profit and loss and surplus for the year ended that date. In connection therewith we have examined or tested accounting records and other supporting evidence of the Company and certain of its more important subsidiaries, without making a detailed audit of the transactions, and have reviewed the system of internal control and the accounting procedures of such companies, by methods and to the extent we deemed appropriate; except that, in order to avoid possible unfavorable reception on the part of customers, we have, at the request of the management, omitted, as in prior years, the confirmation of accounts receivable by direct communication with customers.

The total assets of the companies whose records we examined represented 75.50% of the total consolidated assets, and the net sales of such companies represented 66.16% of the total consolidated net sales. The accounts of the subsidiary companies whose records we did not examine are included in the consolidated statements on the basis of company reports which were reviewed by us.

In our opinion, subject to the exception stated in the first paragraph hereof with respect to confirmation of receivables, and based on our review of company reports on unaudited subsidiary companies, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and surplus present fairly the position of the companies at January 31, 1943, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles which (except that the companies charged substantially all of the supplies deferred at January 31, 1942, \$138,520.36, to profit and loss and returned to their former accounting practice of charging off supplies as purchased, which practice we approve) have been applied by the companies on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
March 29, 1943.

MERCANTILE STORES COMPANY, INC.

COMPARATIVE RESULTS

Five Year Period Ended January 31, 1943

Year Ended	Net Sales	Profit Before Income Taxes	Income Taxes	Net Profit	Dividends Preferred	Common	Earned Surplus (End of Year)
January 31, 1943.....	\$41,173,113	\$3,340,264	\$2,118,645	\$1,221,619	\$37,133	\$361,255	\$1,668,102
January 31, 1942.....	34,867,853	1,912,941	812,164	1,100,776	40,187	290,444	844,871
January 31, 1941.....	29,509,394	939,991	278,547	661,443	41,732	289,612	74,726
January 31, 1940.....	27,619,565	274,646	72,059	202,586	42,504	...	255,372*
January 31, 1939.....	25,467,539	486,264*	3,850	490,114*	46,907	...	415,455*

*Italics indicate loss or deficit.

